



## **CORPORATE GOVERNANCE COMMITTEE – 31<sup>st</sup> JANUARY 2020**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **QUARTERLY TREASURY MANAGEMENT REPORT**

##### **Purpose**

1. The purpose of this report is to update the Committee on the actions taken in respect of treasury management for the quarter ending 31 December 2019 (Quarter 3).

##### **Background**

2. Treasury Management is defined as:  
  
“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
3. A quarterly report is produced for the Committee, to provide an update on any significant events in treasury management.

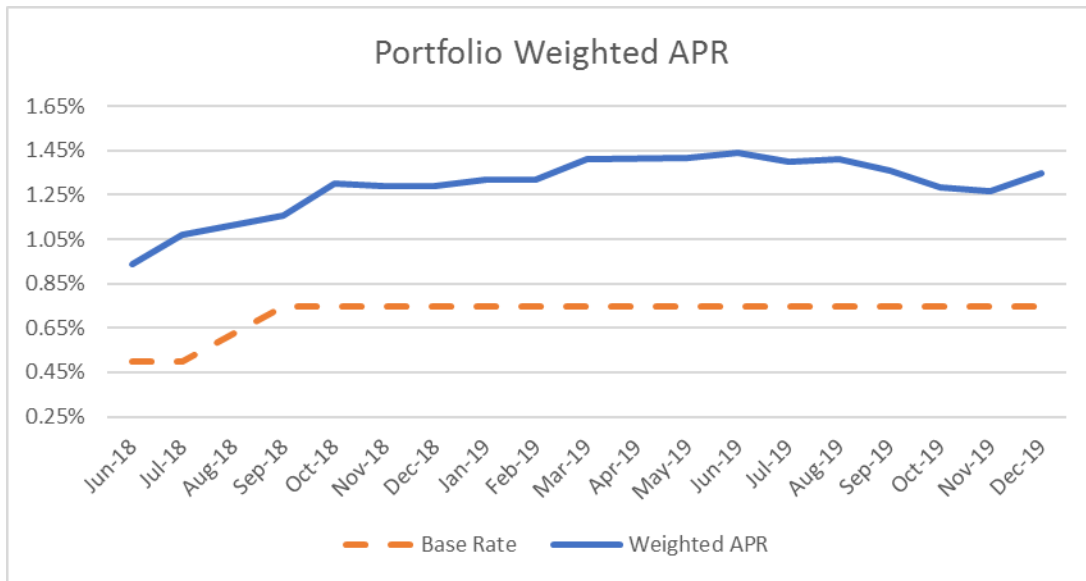
##### **Economic Background**

4. The Council’s treasury management adviser Link Asset Management provides a quarterly update outlining the global economic outlook and monetary policy positions. An extract from this report is attached as an Appendix to this report. The key points are summarised below.
5. The UK economy expanded by 0.4% in Q3, after contracting in Q2, but seems to have slowed again in Q4. Brexit-related stock building and its impact on trade has complicated matters, but notwithstanding this, investment has stagnated, and consumer spending growth slowed, which has dampened the impact of increased government spending.

6. The indications are that inflation will remain below the Bank of England target level for much of 2020, with the October CPI rate of 1.5% a near three year low. Much of the decline is related to energy inflation, which is expected to continue.
7. Monetary policy in the UK remains unclear; the post-election indication is that the Government intends to adopt a harder Brexit approach. With the economy struggling to generate meaningful growth in the current global climate, the uncertainty of a potential “no deal” withdrawal from the EU has resurrected interest rate cut expectations
8. The new European Central Bank (ECB) president has indicated the central bank should evaluate its current strategy and policy instruments. However, with the eurozone economy generating only moderate growth, policy is likely to remain soft and accommodating, resulting in further cuts in interest rates in 2020.
9. In the US, Federal Reserve members seem to be coming around to thinking that there may be no further rate cuts in 2020. Much may depend on the resilience of the economy, which could be dictated by the President’s policy towards tariffs and a successful outcome to the trade talks with China.
10. It should be noted that since publication of the quarterly update from Link Asset Management several pieces of UK economic data (GDP, inflation, retail sales) have been released, all of which point towards the prospect of an early rate cut. Further to this, at least five members of the Bank of England Monetary Policy Committee (MPC) have voiced a view that also points towards a potential easing of monetary policy. Balanced against this is waiting for the impact of the General Election to be felt, particularly the expected fiscal loosening that is expected to feature in the March Budget. The next meeting of the MPC is on 30<sup>th</sup> January 2020 and there is now an increasing prospect that rates will be cut (at the time of writing this decision was unknown).

#### **Action Taken during Quarter 3 to December 2019**

11. The balance of the investment portfolio decreased from £266.1m to £238.7m. Within the portfolio, £101.1m of investment loans matured at an average rate of 1.00%, and £73.7m of new loans were placed, at an average rate of 0.89%.
12. The average rate achieved on new loans once again fell short of the average rate of loans maturing. This is reflective of current market expectation of future rate movement and the trend is likely to continue in the short term.
13. The chart overleaf shows the weighted annual percentage rate (APR) achieved by the treasury portfolio compared to the Bank of England base rate:



14. The portfolio weighted APR continues its downward trend through the early part of quarter 3 before starting to increase again in December. As explained below this upturn is the result of a reduced use of the low yielding Money Market Funds, rather than an upturn in rates offered. As such this trend is not expected to continue in future quarters, in fact it is more likely that there will be downward pressure on the APR.
  
15. As noted in paragraph 11 the portfolio reduced in size in quarter 3, this was the result of there being reduced cash inflows in December. This reduction was expected and Money Market funds held to provide the necessary liquidity. This in turn increased the weighting of some of the longer-term treasury investments, as a proportion of the total portfolio. These longer-term investments yield a higher return and the effect of their increased weighting was therefore to drive up the APR in the final month of quarter 3.
  
16. The loan portfolio at the end of December was invested with the counterparties shown in the list overleaf, shown by original investment date:

	<b>£m</b>	<b>Maturity Date</b>
<b>Instant Access</b>		
Money Market Funds	23.7	October 2019
<b>6 Months</b>		
Goldman Sachs	10.0	January 2020
Nationwide Building Society	10.0	January 2020
National Westminster Bank Plc	10.0	January 2020
Santander	20.0	March 2020
Goldman Sachs	5.0	March 2020
Nationwide Building Society	15.0	April 2020
Santander	5.0	May 2020
Goldman Sachs	10.0	June 2020
<b>9 Months</b>		
Australia & New Zealand Bank	10.0	February 2020
National Westminster Bank Plc	10.0	April 2020
National Westminster Bank Plc	10.0	May 2020
<b>12 Months</b>		
Lloyds (Bank of Scotland)	20.0	May 2020
Australia & New Zealand Bank	10.0	May 2020
National Westminster Bank Plc	10.0	June 2020
National Westminster Bank Plc	10.0	July 2020
Lloyds (Bank of Scotland)	20.0	November 2020
<b>Beyond 12 Months</b>		
Partners Group (Private Debt)	20.0	Estimated 2024
Danske Bank	10.0	September 2027
<b>Total Portfolio Balance at 31<sup>st</sup> December 2019</b>	<b>238.7</b>	

### **Loans to counterparties that breached authorised lending list**

17. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made, and none that had already been placed to a counterparty that subsequently fell below the threshold that would have been acceptable for the remaining period of the loan following a credit-rating downgrade.

**Resource Implications**

18. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

**Equality and Human Rights Implications**

19. There are no discernible equality and human rights implications arising from this report.

**Recommendation**

20. The Committee is asked to note this report.

**Appendices**

Appendix – Economic Overview (November 2019)

**Circulation under the Local Issues Alert Procedure**

None

**Officers to Contact**

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